Ex post evaluation – Liberia

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Sector: 60063 Debt buy-back
Programme/Project: Debt buy-back (Participation in Liberia Debt Reduction Facility) BMZ No. 2008 66 624*
Implementing agency: -/-

Ex post evaluation report: 2016

		Planned	Actual
Investment costs (total)	EUR million	33.77	33.77
Counterpart contribution	EUR million	0.00	0.18
Funding	EUR million	33.77	33.59
of which BMZ budget funds	EUR million	5.00	5.00

*) Random sample 2015
**) Funding of all participating donors

Summary: This project was a cooperation between Germany, Norway, the United Kingdom, the USA and the International Bank for Reconstruction and Development (IBRD), financing the buy-back of Liberian commercial debt. The buy-back was handled through the Debt Reduction Facility (DRF), the World Bank's facility for debt buy-backs from commercial creditors. The DRF provided the Liberian government with funds of 33.59 million to buy back all the country's external commercial debt.

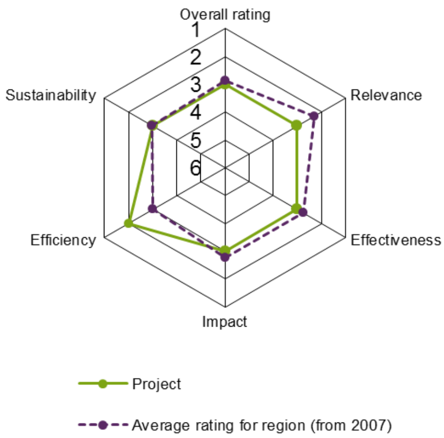
Objectives: Ultimate objective: “Long-term sustainable public debt allows for stability, development and poverty reduction in Liberia”. Project objective: “A successful buy-back of Liberia’s commercial state debt supporting the reduction of the total debt of the country to a sustainable level and strengthening the ability of the state to act.”

Target group: The direct target group was commercial creditors, and the indirect target group the entire population of Liberia.

Overall rating: 3

Rationale: The project was relevant, and also efficient in terms of the relation of expenses to repurchased debt. However, the programme objectives were only partially achieved because although Liberia was successfully relieved of its debt, the much hoped for fiscal space to reduce poverty failed to materialise. Impacts reducing poverty, which are important in terms of development policy, as well as stabilising effects in the fragile context were not achieved in a sustainable manner, despite significant economic growth and the improvement of some other indicators. The danger of seizures caused by creditors claiming access rights was successfully avoided.

Highlights: At an effective cost of 0.3135 US cents per US dollar of debt, the costs of the programme were extremely low compared with similar programmes and represent the lowest value of all buy-backs under the Debt Reduction Facility (DRF).



Rating according to DAC criteria

Overall rating: 3

Relevance

Overall, the buy-back of commercial debt was a necessary component of Liberia's debt reduction strategy and a declared condition for Liberia's participation in the debt relief process for heavily indebted poor countries (HIPC). For without this initiative, a total of approximately USD 1.2 billion in principal and interest claims would have remained at risk (more for example than in Tanzania before the debt relief there totaling USD 677 million); due to their size (about 25 % of total debt) and their legal force, these liabilities could have jeopardised the deleveraging process. Commercial creditors undertook serious effort to assert their claims in some cases. In the case of Liberia, court-confirmed claims amounted to 49 % of GDP (IMF and IDA, 2008). The question of which commercial receivables would, realistically, have actually been collected is difficult to clarify due to the implementation of the debt buy-back. The continued existence of these liabilities would certainly have greatly complicated the crucial new fiscal start for Liberia. Any seizures could have caused developmental damage, which the repurchase of commercial debt forestalled.

In addition to an urgent need to strengthen weak public structures and capacities, caused by mismanagement, nepotism and civil war (described at the project appraisal as a core problem of the state), the restructuring of the state budget was a developmentally sound and important first step towards restoring the state's ability to act.

It is also relevant that the prospect of debt buy-back probably strengthened the incentive for the Liberian government to accept the conditions of the HIPC process. These conditions include not only requirements for a sustainable debt burden, for macroeconomic structural adjustments and macroeconomic stability, but also the essential participatory preparation of a strategy to reduce poverty (Poverty Reduction Strategy Paper, PRSP). The conditions, however, were not without controversy due to their strong emphasis on macroeconomic adjustment (and the associated hardships) and on stability, at the expense of extensive poverty reduction.

Another aspect concerning the relevance of the project was strengthening the government's ability to act in a fragile, post-conflict context. The country was destabilised by extreme government capacity deficits as a result of the civil war ("post-conflict"), refugee flows between Liberia and neighbouring countries, as well as potential rivalries between different population groups. The renewed and increased donor commitment certainly strengthened the credibility of the government in the eyes of many, and legitimised the political and democratic new beginning after the civil war. But this aspect was not emphasised during the project appraisal.

Overall, commercial debt buy-back was a necessary but insufficient development policy measure. The World Bank (2012) points to strong deficits of HIPC countries in achieving their Millennium Development Goals (MDGs): only a quarter of the countries that have reached the HIPC "completion point" are on track to eliminate extreme poverty and hunger.

In general there seem to be signs that debt relief does not directly translate into poverty-reducing investments through the budget restructuring mechanism ("fiscal space"). Since external debt with commercial creditors has not been serviced for years, as in Liberia's case, the debt relief cannot lead directly to additional fiscal space.

This raises the question of whether donors should generally have invested debt relief funds more purposefully from a poverty perspective, if poverty reduction were the primary goal. In Liberia, parallel to the debt relief measures, donors provided funds to reduce poverty. In the years 2009/2010 and 2010/2011 they provided approximately USD 250 million for infrastructure and basic services.

In the case of Liberia it seems that despite donor funding (FC as well), "too little, too late" was undertaken to stabilise the country. The devastating situation in the country probably needed stronger monitoring of debt relief through additional, supporting measures and funding to achieve sustainable poverty effects.

In principle, the development approach of external commercial debt buy-back is considered positive. The developmental impacts, however, are associated with lengthy, indirect and in some cases only potential results chains. The reasons are that the project aimed to avoid potential developmental damage caused by seizures and, anyhow, no commercial debts have been serviced for years.

Relevance rating: 3

Effectiveness

The project objective was: "A successful buy-back of Liberia's commercial state debt supporting the reduction of the total debt of the country to a sustainable level and strengthening the ability of the state to act." The effectiveness of the project is evaluated based on the following indicators on debt burden and poverty orientation, partly revised in the ex-post evaluation (EPE). Where target values were not formulated at the time of the project appraisal (PP), they were formulated at the time of the EPE ("EPE target value"). An assessment on the strengthened ability of the state to act is purely qualitative.

Indicator	Status PA	Ex post evaluation
1. Share of buy-back campaign in debt eligible for repurchase (%)	Status at PA: 0 % Target value at PA: 90 %	Achieved. Stage 1, 2009: 97.5 % of all debt eligible for repurchase Stages 1 & 2, 2010: 100 % of all debt eligible for repurchase
2. Net present value of debt to GDP (standard indicator of the IMF's Debt Sustainability Analysis)	Status at PA: 458 % (2008) 1,381 % (2003) Target value at PA: not defined	Partially achieved. Status at EPE: 31 % (2013) (USD 541 million) Target value at EPE: < 30 %
3. Net present value of the debt to exports	Status at PA: 405 % (2008) 1,199 % (2004) Target value at PA: not defined	Achieved. Status at EPE: 64 % (2013) Target value at EPE: < 150 %
4. Debt service ratio to export revenues	Status at PA: 135 % (2008) Target value at PA: not defined	Achieved. Status at EPE: < 1 % (2015) Target value at EPE: < 15 %

The indicators have been largely achieved. Commercial debts were cleared and reduced the overall debt to an acceptable level.

In Liberia, no external commercial debt has been serviced since the mid-1980s. Therefore, no direct implementation of the debt buy-back funds into more "fiscal space" could be expected. A threat to the ability of the state to act was avoided by averting any seizures by creditors.

Further relevant indicators for assessing effectiveness are developments in government expenditure, which, in contrast to the impacts achievable with the expenditures, shall be addressed at the outcome level:

Indicator	Status at PA	Ex-post evaluation
1. Government expenditure on education	Status at PA: 10 % = 3.5 million in constant (2005) USD (2008)	8 % = 8.1 million in constant (2005) USD (2015)

2. Government expenditure on health	Status at PA: 17 % = 18 million in constant (2005) USD (2008)	13 % = 23 million in constant (2005) USD (2015)
3. Public revenues excluding grants (% of GDP)	Status at PA: 0.2-0.4 % of GDP (2006-08)	0.3 % of GDP (2010-12)

Government expenditure on health and education increased in real terms, but their share in the overall budget declined. Comparing average expenditure in the health sector before and after 2009, there is an average increase of USD 13 million per year in the period 2010-2013. In four years, approximately USD 52 million more was spent on health care alone than before the debt relief. This is more than the commercial debt relief cost. The proportion of this spending in the budget, however, did not increase. What is critical is that the expenditure on social services still comes nowhere near to covering the needs of the country. It remains unclear to what extent the increased spending on health and education actually contained effective programmes for the (poor) population, or only increases in wages and salaries in the sector.

Overall, the state apparatus does not adequately perform its duties even ten years after the turmoil of the civil war. Yet fulfilling public duties is particularly important in a post-conflict country in order to strengthen the legitimacy of the government. A potential threat to the ability of the state to act was avoided by debt relief – whether debt relief actively supported the state's ability to act remains unclear. Despite the equally unclear poverty focus in the national budget, the effectiveness due to successful debt reduction is rated as satisfactory.

Effectiveness rating: 3

Efficiency

At an effective cost of 0.3135 US cents per US dollar of debt, the costs of the programme are extremely low compared with similar programmes and represent the lowest value of all buy-backs under the Debt Reduction Facility (DRF), the World Bank's facility for debt buy-back from commercial creditors. The establishment of a Single Donor Trust Fund for the handling of German funds was unnecessary, causing additional administrative costs because all funds ultimately led to the common purpose of commercial debt reduction.

The extent to which an alternative use of the funds would have been more efficient, if used directly for a developmentally relevant sector such as health care for example, is rather difficult to assess ex-post as well. Health sector financing could have had a more direct impact on the target group of the country's poor, but the risk of debt being recovered by commercial creditors would have remained. The timing of the buy-back was well chosen in this respect, as the creditors were so very uncertain in terms of their chances of winning back their open receivables that they agreed to a discount of more than 97 % of their claims (including interest claims).

Efficiency rating: 2

Impact

The assessment of the impact of the programme (ultimate objective) was extended during the EPE to cover the aspect of stability/fragility: "Long-term sustainable public debt allows for stability, development and poverty reduction in Liberia".

The developmental effects of the programme are assessed based on the Human Development Index (HDI), the Global Hunger Index (GHI) and the Fragile States Index (FSI); in addition, further relevant parameters are described.

Indicator	Status PA	Ex post evaluation
Human Development Index (HDI)	Status at PA: 0.374 (2006) Target value at PA: not defined	Not achieved. Status at EPE: 0.412 (2013) Target value at EPE: Average of countries with low HDI
Global Hunger Index (GHI)	Status at PAP: 41.5 (2005) Target value at PA: not defined	Achieved. Status at EPE: 30.8 (2015) Target value at EPE: 32.2 (average of SSA countries)
Fragile States Index (FSI)	Status at PA: 91.0 - rank 33 out of 177 countries (2008) Target value at PA: not defined	Not achieved. Status at EPE: 97.3 - rank 21 out of 177 countries (2015) Target value at EPE: FSI stable or smaller than index reading 90

Despite improvements, the HDI remains at an extremely low level and does not reach the average value of the countries with low HDI (formulated target value). Due to the uneven distribution of development (measured as Inequality Adjusted HDI [IHDI]), particularly in education, Liberia's HDI loses value. Development is also more unequally distributed in Liberia than it is in the group average.

The Hunger Index of Liberia (2015: 30.8) has improved since 2005 and lies below the average for Sub-Saharan Africa in 2015 (target value: 32.2).

Income poverty in the country has seemingly not decreased. The UNDP 2015 HD Report states a poverty rate of 82 %. During the project appraisal, a national poverty rate of 64 % was mentioned based on data from the World Bank. Whether the poverty rate was significantly lower in the time before the Ebola crisis remains unclear.

What is particularly serious is the fact that the stability of Liberia, measured as an index value for fragile states (FSI), has deteriorated in the past decade. The FSI increased from 91.0 (2008) to 97.3 (2015) points. The country is still distinctly unstable with weak state structures, high population pressure, large numbers of internal and foreign refugees and a strong dependence on external support (highest value 10.0).

Since 2005, the Liberian economy has experienced impressive growth. Both economic output and per capita income rose in real terms. The country's exports grew and generated important export revenues for the country. Likewise there have been positive developments in that both HDI and GHI have improved overall.

All told, the successes in debt relief indeed led to economic development, but could not really be transformed into poverty reduction, infrastructure development, governance and transparency, as confirmed in recent literature. No clear correlation between debt relief and poverty reduction is discernible in Liberia. However, it must be acknowledged that the country could be even weaker today without the debt relief initiatives. Overall, the prospect of the buy-back of commercial debts and the associated complete disposal of inherited liabilities has probably strengthened the incentive to work through the conditions of the HIPC process successfully. This was one of the developmental contributions of the project.

Impact rating: 3

Sustainability

The buy-back of Liberia's commercial debt meant the country was effectively free of its debts; the macroeconomic figures in the country have improved, and the IMF certifies that the country has a robust economic outlook. Liberia has built a new economic foundation and created economic confidence. The debt structure is orderly, debt management and new debts are reasonable and Liberia has low indebtedness risk (debt distress). However, the low amount of new debt is also connected to the fact that the country did not return to the financial markets and indebtedness with commercial creditors, as it presumably would not have been successful there.

Beyond the economic impetus, however, living conditions in Liberia have not improved extensively or sustainably. Government revenue remains low and the country is still heavily dependent on donor contributions. Despite a certain macroeconomic stability, Liberia subsists at the lowest level.

Ten years after the civil war the country is not stable either, as the FSI shows, and is also vulnerable to external shocks. The Ebola epidemic in 2014 completely overwhelmed the country, also because the serious internal challenges such as transparency, corruption and good governance were still not resolved. The Ebola crisis brought the country's economic performance to a standstill. According to estimates from the World Bank, besides the human victims of Ebola there was also hard-earned developmental progress to mourn over. For 2015, the Bank estimates the growth losses of the three countries of Sierra Leone, Liberia and Guinea to be at least USD 2.2 billion. Further consequences include loss of jobs, loss of harvest and food insecurity.

There is currently no prospect of a deep and sustainable reduction in poverty and stabilisation in Liberia. Sustainability is rated as still just about satisfactory only because of the country's low debt.

Sustainability rating: 3

Notes on the methods used to evaluate project success (project rating)

Projects (and programmes) are evaluated on a six-point scale, the criteria being **relevance, effectiveness, efficiency** and **overarching developmental impact**. The ratings are also used to arrive at a **final assessment** of a project's overall developmental efficacy. The scale is as follows:

Level 1	Very good result that clearly exceeds expectations
Level 2	Good result, fully in line with expectations and without any significant shortcomings
Level 3	Satisfactory result – project falls short of expectations but the positive results dominate
Level 4	Unsatisfactory result – significantly below expectations, with negative results dominating despite discernible positive results
Level 5	Clearly inadequate result – despite some positive partial results, the negative results clearly dominate
Level 6	The project has no impact or the situation has actually deteriorated

Rating levels 1-3 denote a positive assessment or successful project while rating levels 4-6 denote a negative assessment.

Sustainability is evaluated according to the following four-point scale:

Sustainability level 1 (very good sustainability): The developmental efficacy of the project (positive to date) is very likely to continue undiminished or even increase.

Sustainability level 2 (good sustainability): The developmental efficacy of the project (positive to date) is very likely to decline only minimally but remain positive overall. (This is what can normally be expected).

Sustainability level 3 (satisfactory sustainability): The developmental efficacy of the project (positive to date) is very likely to decline significantly but remain positive overall. This rating is also assigned if the sustainability of a project is considered inadequate up to the time of the ex post evaluation but is very likely to evolve positively so that the project will ultimately achieve positive developmental efficacy.

Sustainability level 4 (inadequate sustainability): The developmental efficacy of the project is inadequate up to the time of the ex post evaluation and is very unlikely to improve. This rating is also assigned if the sustainability that has been positively evaluated to date is very likely to deteriorate severely and no longer meet the level 3 criteria.

The **overall rating** on the six-point scale is compiled from a weighting of all five individual criteria as appropriate to the project in question. Rating levels 1-3 of the overall rating denote a "successful" project while rating levels 4-6 denote an "unsuccessful" project. It should be noted that a project can generally be considered developmentally "successful" only if the achievement of the project objective ("effectiveness"), the impact on the overall objective ("overarching developmental impact") and the sustainability are rated at least "satisfactory" (level 3).